

CASS COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2010 AND 2009

CASS COUNTY MEMORIAL HOSPITAL

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CASS COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2010

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Steve Sisler, Chairman	Anita, Iowa	2012
Phyllis Stakey, Vice-Chairman	Massena, Iowa	2010
Leanne Pellett, Secretary and Treasurer	Atlantic, Iowa	2014
John Molgaard	Atlantic, Iowa	2010
Lois Casey	Atlantic, Iowa	2012
Dawn Ridlen	Griswold, Iowa	2014
Ned Brown	Atlantic, Iowa	2014
<u>Administrator/CEO:</u>		
Patricia A. Markham	Atlantic, Iowa	
<u>Assistant Administrator/CFO:</u>		
Stephen Lewis	Atlantic, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Cass County Memorial Hospital
Atlantic, Iowa

We have audited the accompanying balance sheets of Cass County Memorial Hospital as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note A, the operations of two component units are excluded from these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that such entities be discreetly presented with these financial statements.

In our opinion, except for the effects of the exclusion of the component units required to be included, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Cass County Memorial Hospital as of June 30, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2010 on our consideration of Cass County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Trustees
Cass County Memorial Hospital

The management's discussion and analysis and budgetary comparison schedule on pages 4 through 4d and 24 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2008 (none of which are presented herein) and expressed qualified opinions on those financial statements. The supplementary information (shown on pages 25 through 41) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

G. M. W. W. W., Ben, Kyhn & Co. P.C.

Atlantic, Iowa
October 12, 2010



Cass County Memorial Hospital

1501 East 10th Street

Atlantic, Iowa 50022

712-243-3250

CASS COUNTY MEMORIAL HOSPITAL Atlantic, Iowa Management's Discussion and Analysis

Management's discussion and analysis of the Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2010, 2009, and 2008. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

The major difference in financial activity from FY 2010 and FY 2009 is the decrease in inpatient revenue due to a sharp decline in utilization. This decline coincides with the loss of two Family Practice Physicians which are currently being recruited for but have not yet been replaced. The Hospital is a Critical Access Hospital and the Clinics are Provider Based Rural Health Clinics, thus the Hospital and the Rural Health Clinics receive "cost based" reimbursement from Medicare and Medicaid.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements – Balance Sheet; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

Statistical Analysis gives us an indication of Hospital utilization in certain areas. As with most rural hospitals, Cass County Memorial Hospital has seen a continued shift from "Inpatient utilization" to "Outpatient utilization." Thus, more procedures are done on an outpatient basis due to improved technology.

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets help us understand if the Hospital as a whole is better or worse off as a result of this year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Both statements report the Hospital's net assets and changes in them. The change in net assets is a measure of the Hospital's "financial health," but you will need to consider other "nonfinancial" factors such as changes in the Hospital's patient base, measures in the quality of service, and local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities.

STATISTICAL ANALYSIS

The Hospital experienced decreased utilization in Acute Care (28%), Skilled Care (29%), Psychiatric Services (14%), Nursery (24%), Outpatient Occasions of Service (<1%) and Rural Health Clinic Visits (10%) compared to FY 2009 and summarized in Table 1.

Table 1: Statistics

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Acute Care:			
Discharges	673	1,015	1,058
Patient Days	1,958	2,716	3,168
Skilled Care:			
Discharges	244	352	346
Patient Days	1,639	2,318	2,208
Psychiatric Unit:			
Discharges	255	214	227
Patient Days	1,017	1,187	1,118
Nursery:			
Patient Days	249	329	325
Outpatient Occasions of Service	63,719	63,797	61,527
Rural Health Clinic Visits	39,384	43,584	32,354

BALANCE SHEET

Net assets increased 3% from \$22,312,989 to \$23,088,746. Total Current Assets decreased 4% with Cash increasing 9%. Net Patient Receivables decreased 7%. Cash position improved due to better reimbursement from the Medicare and Medicaid programs for the Rural Health Clinic and a decrease in our accounts receivable. Current Liabilities decreased 6%. The long-term portion of Capital Lease Obligations increased 77% due to two new capital lease obligations for Radiology equipment. The last bond payment for the 1996 addition is due November 2010 which reduced the Net Bond Payable to zero.

Table 2: Assets, Liabilities, Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 12,980,643	\$ 13,468,138	\$ 13,040,867
Capital assets, net	9,313,124	9,189,413	9,876,362
Other noncurrent assets	<u>7,078,018</u>	<u>6,231,516</u>	<u>4,678,576</u>
Total assets	<u>\$ 29,371,785</u>	<u>\$ 28,889,067</u>	<u>\$ 27,595,805</u>
Liabilities:			
Long-term debt outstanding	\$ 529,706	\$ 451,632	\$ 970,528
Other current and noncurrent Liabilities	<u>5,753,333</u>	<u>6,124,446</u>	<u>5,584,601</u>
Total liabilities	<u>\$ 6,283,039</u>	<u>\$ 6,576,078</u>	<u>\$ 6,555,129</u>
Net Assets:			
Invested in capital assets, net of Related debt	\$ 8,290,880	\$ 8,169,986	\$ 8,335,563
Restricted	524,078	508,865	493,249
Unrestricted	<u>14,273,788</u>	<u>13,634,138</u>	<u>12,211,864</u>
Total net assets	<u>\$ 23,088,746</u>	<u>\$ 22,312,989</u>	<u>\$ 21,040,676</u>

STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS

Patient Service Revenue decreased 5% from last fiscal year. The decrease was due to a sharp decrease in inpatient utilization and a small decrease in outpatient utilization.

Contractual adjustments to Patient Service Revenue decreased 15% due to an increase cost per patient which lead to a decrease in Medicare and Medicaid adjustments. Adjustments for bad debt increased 3% while uncompensated care decreased 30%.

Expenses increased <1%. Most of the increase in employee benefits (3%) was due to increased health care claim cost. Salaries increased <1%, professional fees decreased <1%, supplies and other expense decreased 1% and depreciation increased 5%.

The Hospital had a net operating loss of \$1,173,348 compared to a net operating loss of \$874,481 in FY 2009. This is consistent with the Hospital's operating history. In 1966, when operations began as a county hospital, it was agreed that a portion of its cost would be subsidized by property tax revenues, making the facility more affordable for the county's lower income residents. Nonoperating revenue (which includes County tax support) decreased by 10%. County tax revenue increased 5% due to an increase in property valuation. The excess of revenue over expense decreased from a positive \$1,272,313 to \$775,757.

Table 3: Revenues, Expenses & Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues:			
Patient service revenue	\$ 44,929,206	\$ 47,217,240	\$ 44,042,242
Adjustments to patient service revenue	(15,406,862)	(17,502,545)	(16,348,067)
Net patient service revenue	29,552,344	29,936,704	27,694,175
Other operating revenue	1,142,048	1,109,490	970,419
Total operating revenues	<u>30,664,392</u>	<u>30,824,185</u>	<u>28,664,594</u>
Operating Expenses:			
Salaries	15,358,592	15,299,695	13,932,673
Employee benefits	4,261,693	4,125,831	3,464,769
Professional fees	3,034,766	3,051,033	2,608,552
Supplies and other expense	7,654,377	7,763,515	7,423,964
Depreciation	1,525,312	1,458,592	1,396,643
Total operating expenses	<u>31,837,740</u>	<u>31,698,666</u>	<u>28,826,601</u>
Operating loss	(1,173,348)	(874,481)	(162,007)
Nonoperating Revenue and Expense:			
Property taxes	1,775,414	1,697,529	1,696,144
Other Nonoperating revenue and Expense	<u>173,691</u>	<u>449,265</u>	<u>267,332</u>
Total Nonoperating revenue And expense	<u>1,949,105</u>	<u>2,146,794</u>	<u>1,963,476</u>
Excess of Revenues Over Expenses	775,757	1,272,313	1,801,469
Net Assets Beginning of Year	22,312,989	21,040,676	21,807,194
Change in Net Assets Resulting from Merging of Physician Clinics	<u>--</u>	<u>--</u>	<u>(2,567,987)</u>
Net Assets End of Year	<u>\$ 23,088,746</u>	<u>\$ 22,312,989</u>	<u>\$ 21,040,676</u>

STATEMENT OF CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating losses and non operating revenues and expenses, discussed earlier. The Hospital incurred a loss from operations of \$1,173,348. Cash in current assets on the balance sheet increased from \$3,322,317 to \$3,636,087 a decrease in accounts receivable and receiving "cost based" reimbursement from the Medicare and Medicaid programs. The Hospital had a positive cash flow from operations of \$1,027,187, compared to positive operating cash flow of \$2,588,329 in FY 2009.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2010 was prepared on a modified accrual basis. There were no amendments made to the budget.

Patient Service Revenue was 12% below budget. Deductions from revenue were 17% below budget. Other Operating Revenue was 9% below budget, which made Total Operating Revenue 9% below budget. Total Operating expense was 7% below budget and Income from Operations was 35% below budget. The excess of revenue over expense was 49% under budget.

CAPITAL ASSETS

At the end of FY 2010, the Hospital had \$9,313,124 invested in capital assets, net of accumulation depreciation. In FY 2010 the Hospital purchased new equipment costing \$1,727,881. New equipment purchased in FY 2009 was \$829,952.

DEBT

The Hospital has five capital leases for the purchase of equipment (CT Scan, Ultrasound, Omnicell, Mammography Machine, and Digital Radiology room). These leases carry interest rates of 1.45% to 8.78% and mature from May 2011 to September 2013.

In January of 2006 the Hospital issued \$1,605,000 of Series 2006 Hospital Refunding Revenue Note with an effective interest rate of 4.53% to refund outstanding Series 1995 Hospital Revenue Bonds with varying interest rates ranging from 5.3% to 7.0%. The final payment on this bond is due November 2010.

Total Long Term Debt and Capital Leases at the end of FY 2010 totaled \$996,804.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact administration at Cass County Memorial Hospital, Atlantic, Iowa 50022.

CASS COUNTY MEMORIAL HOSPITAL
Balance Sheets
June 30,

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 3,636,087	\$ 3,322,317
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$2,241,000 in 2010, \$2,542,416 in 2009)	5,064,426	5,419,949
Other receivables	913,607	839,699
Inventory	572,468	682,971
Prepaid expense	449,963	554,369
Succeeding year property tax receivable	1,851,000	2,086,000
Internally designated assets	<u>493,092</u>	<u>562,833</u>
Total current assets	12,980,643	13,468,138
Designated and Restricted Assets:		
Internally designated assets	5,961,376	5,228,332
Restricted assets	<u>524,078</u>	<u>508,865</u>
	6,485,454	5,737,197
Less amounts required to meet current liabilities	<u>493,092</u>	<u>562,833</u>
	5,992,362	5,174,364
Capital Assets:		
Depreciable capital assets, net	8,359,360	8,482,696
Non-depreciable capital assets	<u>953,764</u>	<u>706,717</u>
	9,313,124	9,189,413
Investment in Cass County Medical Clinics, Inc.	424,340	435,478
Other Noncurrent Assets	<u>661,316</u>	<u>621,674</u>
Total assets	<u>\$ 29,371,785</u>	<u>\$ 28,889,067</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 460,393	\$ 537,869
Accounts payable	650,584	717,953
Accrued employee compensation	1,581,569	1,684,752
Payroll taxes withheld and accrued	374,174	362,677
Accrued interest payable	613	2,195
Other current liabilities	175,000	150,000
Estimated third-party payor settlements	660,000	583,000
Deferred revenue for succeeding year property tax receivable	<u>1,851,000</u>	<u>2,086,000</u>
Total current liabilities	5,753,333	6,124,446
Long-Term Debt:		
Capital lease obligations, less current maturities	529,706	298,497
Bonds payable, less unamortized refunding costs and current maturities	<u>--</u>	<u>153,135</u>
Total long-term debt	529,706	451,632
Total liabilities	6,283,039	6,576,078
Net Assets:		
Invested in capital assets, net of related debt	8,290,880	8,169,986
Restricted - expendable	524,078	508,865
Unrestricted	<u>14,273,788</u>	<u>13,634,138</u>
	23,088,746	22,312,989
 Total liabilities and net assets	 <u>\$ 29,371,785</u>	 <u>\$ 28,889,067</u>

CASS COUNTY MEMORIAL HOSPITAL
Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Revenues:		
Net patient service revenue	\$ 29,522,344	\$ 29,714,695
Other revenue	<u>1,142,048</u>	<u>1,109,490</u>
Total revenue	30,664,392	30,824,185
Expenses:		
Nursing service	5,909,147	6,188,107
Other professional service	14,107,388	14,030,665
General service	2,284,389	2,392,679
Fiscal and administrative service	8,008,504	7,628,623
Provision for depreciation	<u>1,528,312</u>	<u>1,458,592</u>
Total expenses	<u>31,837,740</u>	<u>31,698,666</u>
Operating Loss	(1,173,348)	(874,481)
Non-Operating Revenues (Expenses):		
County taxes	1,775,414	1,697,529
Home health care county revenue	93,600	90,000
Investment income	207,922	223,322
Noncapital contributions	305	1,645
Medical office building rent, net	55,772	67,038
Southwest Iowa Mental Health Center services, net	(12,901)	265,215
Retail pharmacy loss, net	(158,648)	(180,239)
Other rental income (loss), net	1,550	2,625
Interest expense	(90,317)	(85,027)
Loss on disposal of assets	<u>(8,506)</u>	<u>--</u>
Non-operating revenue, net	<u>1,864,191</u>	<u>2,082,108</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	690,843	1,207,627
Capital Grants and Contributions	<u>84,914</u>	<u>64,686</u>
Excess of Revenues Over Expenses and Increase in Net Assets	775,757	1,272,313
Net Assets Beginning of Year	<u>22,312,989</u>	<u>21,040,676</u>
Net Assets End of Year	<u>\$ 23,088,746</u>	<u>\$ 22,312,989</u>

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 29,848,693	\$ 31,614,204
Cash paid to suppliers	(14,492,979)	(14,985,350)
Cash paid to employees	(15,461,775)	(15,132,839)
Other revenue	<u>1,133,248</u>	<u>1,092,314</u>
Net cash provided by operating activities	1,027,187	2,588,329
Cash flows from noncapital financing activities:		
County tax revenue	1,869,014	1,787,529
Noncapital contributions	<u>305</u>	<u>1,645</u>
Net cash provided by noncapital financing activities	1,869,319	1,789,174
Cash flows from capital and related financing activities:		
Capital expenditures	(799,611)	(530,230)
Computer system expenditures	(341,984)	(305,119)
Capital grants and contributions	84,914	64,686
Proceeds from disposal of assets	250	--
Principal paid on long-term debt	(647,950)	(528,501)
Interest paid	<u>(74,618)</u>	<u>(69,248)</u>
Net cash used in capital and related financing activities	(1,778,999)	(1,368,412)
Cash flows from investing activities:		
Investment income	218,323	273,796
Investment in Cass County Medical Clinics, Inc.	(188,862)	(129,637)
Increase in designated and restricted assets	(89,099)	(97,260)
Rental income, net	117,114	93,526
Southwest Iowa Mental Health Center services, net	19,365	(9,027)
Retail pharmacy loss, net	(158,648)	(180,239)
Change in other noncurrent assets	<u>(61,171)</u>	<u>(27,576)</u>
Net cash used in investing activities	(142,978)	(76,417)
Net increase in cash and cash equivalents	974,529	2,932,674
Cash and cash equivalents at beginning of year	<u>5,188,728</u>	<u>2,256,054</u>
Cash and cash equivalents at end of year	<u>\$ 6,163,257</u>	<u>\$ 5,188,728</u>

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 3,636,087	\$ 3,322,317
Cash and cash equivalents in designated and restricted assets	<u>2,527,170</u>	<u>1,866,411</u>
	<u>\$ 6,163,257</u>	<u>\$ 5,188,728</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(1,173,348)	\$(874,481)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	1,528,312	1,458,592
Amortization	20,340	26,340
Write-off CCMC investment	200,000	--
Expense computer system project	72,210	--
Component of operating revenue reclassified for purposes of reporting cash flows		
Interest income on operating funds	(8,800)	(17,176)
Change in assets and liabilities		
Accounts receivable	249,349	2,084,509
Inventory	110,503	19,707
Prepaid expense	104,406	(187,933)
Accounts payable, trade	(86,099)	15,133
Accrued employee compensation	(103,183)	166,856
Payroll taxes withheld and accrued	11,497	81,782
Estimated third-party payor settlements	77,000	(185,000)
Other current liabilities	25,000	--
Total adjustments	<u>2,200,535</u>	<u>3,462,810</u>
Net cash provided by operating activities	<u>\$ 1,027,187</u>	<u>\$ 2,588,329</u>

Non-Cash Transactions:

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by operating activities:

	<u>2010</u>	<u>2009</u>
Book value of equipment traded	<u>\$ 8,918</u>	<u>\$ --</u>
Equipment purchased through capital leases	<u>\$ 632,456</u>	<u>\$ --</u>

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization is a county hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has two component units. Cass County Medical Clinics, Inc. (CCMC) is a component unit because three out of five board members are also board members of the Hospital, and the Cass County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation. The Hospital has elected to exclude the financial information of its component units from these financial statements which, when discreetly presented, would not affect the Hospital's Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, or Statement of Cash Flows.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market, except for general stores inventory which is valued at average cost.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of five years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in either 2010 or 2009.

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 552 hours for full-time employees and 276 for part-time employees. Any excess over the maximum hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note C.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

16. Net Assets

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note I. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2008. The Medicaid cost reports have been audited through June 30, 2006. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Long-term debt	\$ <u>524,078</u>	\$ <u>508,865</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2010 or 2009.

NOTE D - DESIGNATED NET ASSETS

Of the \$14,273,788 (\$13,634,138 as of June 30, 2009) of unrestricted net assets as of June 30, 2010, \$5,961,376 (\$5,228,332 for 2009) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

	<u>2010</u>	<u>2009</u>
Capital acquisitions and payment of long-term debt	\$ <u>5,961,376</u>	\$ <u>5,228,332</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	<u>2010</u>	<u>2009</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 2,505,157	\$ 1,844,440
Certificates of deposit	3,326,573	3,248,773
Donated stock	114,816	116,416
Interest receivable	<u>14,830</u>	<u>18,703</u>
	<u>\$ 5,961,376</u>	<u>\$ 5,228,332</u>
Restricted Assets:		
Cash and cash equivalents	\$ 22,013	\$ 21,971
Certificate of deposit	496,998	482,180
Accrued interest	<u>5,067</u>	<u>4,714</u>
	<u>\$ 524,078</u>	<u>\$ 508,865</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Receivable from:		
Patients	\$ 1,868,219	\$ 2,036,218
Medicare	2,797,790	3,049,381
Medicaid	1,321,395	1,440,221
Blue Cross	545,864	594,951
Other commercial insurance carriers	656,837	715,903
Others	<u>115,321</u>	<u>125,691</u>
	7,305,426	7,962,365
Less allowances for doubtful accounts and contractual adjustments	<u>2,241,000</u>	<u>2,542,416</u>
	<u>\$ 5,064,426</u>	<u>\$ 5,419,949</u>

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2010 and 2009 were as follows:

<u>Cost</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Land Improvements	\$ 2,107,014	\$ 152,247	\$ --	\$ 2,259,261
Buildings	7,132,246	40,290	--	7,172,536
Building Services Equipment	4,336,990	2,695	48,647	4,291,038
Medical Office Building	4,287,186	--	--	4,287,186
Fixed Equipment	2,751,755	73,890	159,831	2,665,814
Major Movable Equipment	10,671,766	1,211,712	230,147	11,653,331
Rural Health Clinic Equipment	<u>423,884</u>	<u>--</u>	<u>--</u>	<u>423,884</u>
	31,710,841	1,480,834	438,625	32,753,050
<u>Depreciation</u>				
Land Improvements	1,493,594	114,211	--	1,607,805
Buildings	4,574,453	236,413	--	4,810,866
Building Services Equipment	3,429,548	136,633	39,728	3,526,453
Medical Office Building	2,312,535	151,938	--	2,464,473
Fixed Equipment	2,471,171	85,101	159,831	2,396,441
Major Movable Equipment	8,557,628	850,570	221,392	9,186,806
Rural Health Clinic Equipment	<u>389,216</u>	<u>11,630</u>	<u>--</u>	<u>400,846</u>
Total Depreciation	<u>23,228,145</u>	<u>1,586,496</u>	<u>420,951</u>	<u>24,393,690</u>
Depreciable Capital Assets, Net	<u>\$ 8,482,696</u>	<u>\$ (105,662)</u>	<u>\$ 17,674</u>	<u>\$ 8,359,360</u>
Construction in Progress	\$ 19,160	\$ 163,699	\$ --	\$ 182,859
Computer System Projects	251,994	341,984	258,636	335,342
Land Held for Future Development	410,080	--	--	410,080
Land	<u>25,483</u>	<u>--</u>	<u>--</u>	<u>25,483</u>
Non-Depreciable Capital Assets	<u>\$ 706,717</u>	<u>\$ 505,683</u>	<u>\$ 258,636</u>	<u>\$ 953,764</u>

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
Land Improvements	\$ 1,883,415	\$ 223,599	\$ --	\$ 2,107,014
Buildings	7,122,866	9,380	--	7,132,246
Building Services Equipment	4,312,559	24,431	--	4,336,990
Medical Office Building	4,287,186	--	--	4,287,186
Fixed Equipment	2,753,805	--	2,050	2,751,755
Major Movable Equipment	10,261,040	424,276	13,550	10,671,766
Rural Health Clinic Equipment	<u>418,649</u>	<u>5,235</u>	<u>--</u>	<u>423,884</u>
	31,039,520	686,921	15,600	31,710,841
<u>Depreciation</u>				
Land Improvements	1,380,715	112,879	--	1,493,594
Buildings	4,342,563	231,890	--	4,574,453
Building Services Equipment	3,273,649	155,899	--	3,429,548
Medical Office Building	2,160,251	152,284	--	2,312,535
Fixed Equipment	2,395,479	77,742	2,050	2,471,171
Major Movable Equipment	7,800,736	770,442	13,550	8,557,628
Rural Health Clinic Equipment	<u>373,451</u>	<u>15,765</u>	<u>--</u>	<u>389,216</u>
Total Depreciation	<u>21,726,844</u>	<u>1,516,901</u>	<u>15,600</u>	<u>23,228,145</u>
Depreciable Capital Assets, Net	<u>\$ 9,312,676</u>	<u>\$ (829,980)</u>	<u>\$ --</u>	<u>\$ 8,482,696</u>
Construction in Progress	\$ 17,798	\$ 144,737	\$ 143,375	\$ 19,160
Computer System Projects	110,325	305,119	163,450	251,994
Land Held for Future Development	410,080	--	--	410,080
Land	<u>25,483</u>	<u>--</u>	<u>--</u>	<u>25,483</u>
Non-Depreciable Capital Assets	<u>\$ 563,686</u>	<u>\$ 449,856</u>	<u>\$ 306,825</u>	<u>\$ 706,717</u>

The Hospital rents a portion of the medical office building. Depreciation expense related to the rented space was \$58,184 for the year ended June 30, 2010 (\$58,309 for 2009).

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE H - LEASES

Assets recorded under capital leases consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Medical Equipment	\$ 1,723,326	\$ 1,090,870
Less: Accumulated Amortization	<u>882,054</u>	<u>584,208</u>
Net Book Value	<u>\$ 841,272</u>	<u>\$ 506,662</u>

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2010 and 2009 follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2010</u>	<u>Current Portion</u>
Long-Term Debt:					
Note payable	\$ 502,936	\$ --	\$ 343,141	\$ 159,795	\$ 159,795
Less unamortized refunding costs	<u>(22,797)</u>	<u>--</u>	<u>(16,092)</u>	<u>(6,705)</u>	<u>(6,705)</u>
Total Long-Term Debt	480,139	--	327,049	153,090	153,090
Capital Lease Obligations	<u>509,362</u>	<u>632,456</u>	<u>304,809</u>	<u>837,009</u>	<u>307,303</u>
Total Non-Current Liabilities	<u>\$ 989,501</u>	<u>\$ 632,456</u>	<u>\$ 631,858</u>	<u>\$ 990,099</u>	<u>\$ 460,393</u>
	<u>Balance 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2009</u>	<u>Current Portion</u>
Long-Term Debt:					
Note payable	\$ 831,222	\$ --	\$ 328,286	\$ 502,936	\$ 343,096
Less unamortized refunding costs	<u>(38,889)</u>	<u>--</u>	<u>(16,092)</u>	<u>(22,797)</u>	<u>(16,092)</u>
Total Long-Term Debt	792,333	--	312,194	480,139	327,004
Capital Lease Obligations	<u>709,577</u>	<u>--</u>	<u>200,215</u>	<u>509,362</u>	<u>210,865</u>
Total Non-Current Liabilities	<u>\$1,501,910</u>	<u>\$ --</u>	<u>\$ 512,409</u>	<u>\$ 989,501</u>	<u>\$ 537,869</u>

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE I - NON-CURRENT LIABILITIES - Continued

Note Payable

The Hospital issued \$1,605,000 of a Hospital Revenue Refunding Note, Series 2006, for the purpose of early refunding the Hospital Revenue Bonds, Series 1995. The note is payable from the revenues of the Hospital. The note matures in semi-annual installments of \$180,930 starting in May, 2006 through November, 2010, with an interest rate of 4.48%. The Hospital has pledged its future revenues (net of certain expenses) to repay the note. The annual debt service on the note is expected to require less than 15% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$361,900 and \$2,301,400 respectively.

Under the terms of the note, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The note also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the note is outstanding.

Capital Leases

The Hospital has entered into five capital leases for the purchase of equipment. The leases carry interest rates of 1.45% to 8.78%. The leases mature from May, 2011 to September, 2013.

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30,	Long-Term Debt		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 159,795	\$ 3,607	\$ 307,303	\$ 48,042	\$ 467,098	\$ 51,649
2012	--	--	210,681	31,288	210,681	31,288
2013	--	--	152,900	17,131	152,900	17,131
2014	--	--	166,125	2,724	166,125	2,724
	<u>\$ 159,795</u>	<u>\$ 3,607</u>	<u>\$ 837,009</u>	<u>\$ 99,185</u>	<u>\$ 996,804</u>	<u>\$ 102,792</u>

NOTE J - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% (4.50% beginning July 1, 2010) of their annual salary and the Hospital is required to contribute 6.65% (6.95% beginning July 1, 2010) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were approximately \$1,058,300, \$1,015,000, and \$870,000, respectively, equal to the required contributions for each year.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE K - DEFERRED COMPENSATION PLAN

The Hospital offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows Hospital employees to defer a portion of their current salary until future years. The Hospital matches a portion of employee contributions to the employees' accounts. The Hospital's contribution expense totaled approximately \$209,100 and \$211,300 for the years ended June 30, 2010 and 2009, respectively. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the independent contractor for investment. The plan is designed so that each participant retains investment control of his/her individual account. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting administrators. These contractors are responsible for withholdings and W-2s when the participants receive payments. The contractors are also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2010 was approximately \$8,209,000 (\$6,585,000 at June 30, 2009). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE L - RELATED PARTIES

Southwest Iowa Mental Health Center

The Hospital has entered into a sharing agreement with Southwest Iowa Mental Health Center, pursuant to Chapter 28E of the Iowa Code, to deliver mental health services in the area. Under the agreement, all non-physician personnel became employees of the Hospital. The Mental Health Center agreed to purchase all non-physician services necessary for the Center's operations from the Hospital. Tax funds collected by the Hospital for a portion of the cost of the Center's non-physician personnel result in credits being passed through to the Center. The Hospital agreed to purchase all mental health physician services necessary for its inpatient operation from the Center.

The Hospital has agreed to provide operating capital and fund operating deficits of the Center. During the year ended June 30, 2010, the Hospital provided \$50,000 (\$70,000 in 2009) of operating capital. The Center had net loss in 2010 of \$82,266 (net income of \$204,242 in 2009) without the Hospital's funding.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE L - RELATED PARTIES - Continued

Below is a summary of the activity and amounts due under the agreement with the Mental Health Center as of June 30:

	<u>2010</u>	<u>2009</u>
Hospital expense to Mental Health Center for physicians	\$ <u>295,302</u>	\$ <u>209,779</u>
Support and net deficit funding (refunding) to Hospital from Mental Health Center	\$ <u>153,274</u>	\$(<u>143,624</u>)
Hospital revenue for Mental Health Center personnel costs and insurance	\$ <u>921,525</u>	\$ <u>820,729</u>
Owed to Hospital by the Mental Health Center	\$ <u>676,494</u>	\$ <u>697,825</u>

The financial arrangements for the 2010-2011 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$336,500, which includes financial support and payment for physician services. The Center agreed to pay the Hospital approximately \$830,600 for non-physician services. Future financial arrangements will be determined annually based on a review of actual operations and needs.

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Myrtue Medical Center of Harlan and Montgomery County Memorial Hospital of Red Oak) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2010</u>	<u>2009</u>
Services purchased from HPSI	\$ <u>113,900</u>	\$ <u>120,503</u>
Services and supplies provided to HPSI	\$ <u>125,245</u>	\$ <u>162,277</u>
Amount due from HPSI	\$ <u>48,391</u>	\$ <u>37,573</u>
Member share of net assets	\$ <u>344,382</u>	\$ <u>300,011</u>

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE L - RELATED PARTIES - Continued

The member share of net assets is included in other noncurrent assets and the amount due from HPSI is included in other receivables on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Hospital and the Office of the State Auditor.

Cass County Memorial Hospital Foundation

Cass County Memorial Hospital Foundation is a separate not-for-profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation. During the year ended June 30, 2010, contributions received from this organization were approximately \$54,000 (\$45,000 for 2009).

NOTE M - CASS COUNTY MEDICAL CLINICS

The Hospital and local physicians developed a not-for-profit corporation, Cass County Medical Clinics, Inc. (CCMC), to operate three local medical practices (Atlantic Medical Center, Eye Associates and Southwest Iowa Surgery). CCMC leases medical office space, and purchases medical services and supplies from the Hospital. CCMC also purchases health insurance coverage through the Hospital's self-funded group health insurance plan. The Hospital provided start up and operating capital to CCMC over several years, for the benefit of the community. During the year ended June 30, 2010, the Hospital recorded an allowance of \$200,000 against the advances (\$ - 0 - for 2009). The operations of CCMC are managed by the Hospital and physicians. The Hospital has pledged to support CCMC as may be necessary in the future.

The Hospital contracts with the physicians of CCMC-Atlantic Medical Center for the operation of its four rural health clinics. The Hospital purchases the physician services based on a budgeted amount, set prior to the start of each year. After the completion of the year, an analysis is prepared to determine any net settlement.

Transactions between the Hospital and CCMC are listed below:

	<u>2010</u>	<u>2009</u>
<u>CCMC purchases from Hospital</u>		
Rent of medical office space	\$ 65,274	\$ 65,594
Medical services, insurance, and other expenses	75,687	48,382
Health insurance	<u>149,469</u>	<u>158,513</u>
	<u>\$ 290,430</u>	<u>\$ 272,489</u>
 <u>Hospital purchases from CCMC</u>		
Physician services	<u>\$ 1,792,875</u>	<u>\$ 1,815,306</u>

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE M - CASS COUNTY MEDICAL CLINICS - Continued

Following is a schedule of the investment in CCMC as of June 30:

	<u>2010</u>	<u>2009</u>
Purchases of physician practices	\$ 84,944	\$ 84,944
Advances of operating capital, and unpaid rent and insurance	<u>339,396</u>	<u>350,534</u>
	<u>\$ 424,340</u>	<u>\$ 435,478</u>

NOTE N - COMMITMENTS AND CONTINGENCIES

Self-Funded Health Insurance

The Hospital has established an employee health insurance program. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. The estimated amount of unpaid claims at June 30, 2010 is \$175,000 (\$150,000 at June 30, 2009), which is reported in other current liabilities.

Construction in Progress

As of June 30, 2010, the Hospital incurred planning costs of \$182,859 for possible future construction and renovations to the existing facility. The total estimated cost of the project is \$22 million. The Hospital intends to fund the project through the issuance of debt. As of the date of this report, no commitments have been made.

Computer System Project and Equipment

As of June 30, 2010, the Hospital incurred fees of \$335,342 for various computer hardware and software applications, and equipment that had not been completed and placed in service. The total remaining estimated cost of the equipment and software is \$1,738,000, which is being financed through the use of internally generated funds.

Notes Receivable

Reported as part of other noncurrent assets on the balance sheets are notes receivable with a balance of \$88,800 as of June 30, 2010 (\$90,000 as of June 30, 2009). The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2010 and 2009

NOTE N - COMMITMENTS AND CONTINGENCIES - Continued

Other Post Employment Benefits (OPEB)

The Hospital implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions during the year ended June 30, 2009.

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Cass County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Subsequent Events

The Hospital has evaluated all subsequent events through October 12, 2010, the date the financial statements were available to be issued.

Effective July 30, 2010, the Hospital closed two of its three retail pharmacy operations located in Griswold and Massena.

Effective November 1, 2010, the Hospital will discontinue to provide home health care and hospice services. An agreement has been made with Iowa Health Systems, who will take over providing these services and lease the Hospital's existing home health care and hospice space.

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REQUIRED SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for home health care county revenue, interest, plant and equipment purchases, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,869,014	\$ --	\$ 1,869,014
Other revenues	30,744,483	--	30,744,483
Transfers in (out)	(15,213)	15,213	--
	<u>32,598,284</u>	<u>15,213</u>	<u>32,613,497</u>
Expenses	<u>31,837,740</u>	<u>--</u>	<u>31,837,740</u>
Net	760,544	15,213	775,757
Balance beginning of year	<u>21,804,124</u>	<u>508,865</u>	<u>22,312,989</u>
Balance end of year	<u>\$ 22,564,668</u>	<u>\$ 524,078</u>	<u>\$ 23,088,746</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,869,014	\$(93,600)	\$ 1,775,414	\$ 2,085,617
Other revenues	<u>30,744,483</u>	<u>183,917</u>	<u>30,928,400</u>	<u>36,289,552</u>
	<u>32,613,497</u>	<u>90,317</u>	<u>32,703,814</u>	<u>38,375,169</u>
Expenses	<u>31,837,740</u>	<u>1,231,912</u>	<u>33,069,652</u>	<u>37,764,074</u>
Net	775,757	(1,141,595)	(365,838)	611,095
Balance beginning of year	<u>22,312,989</u>	<u>(10,404,659)</u>	<u>11,908,330</u>	<u>11,908,330</u>
Balance end of year	<u>\$ 23,088,746</u>	<u>\$(11,546,254)</u>	<u>\$ 11,542,492</u>	<u>\$ 12,519,425</u>

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,668,516	22.8%	\$ 932,003	11.7%
31 - 60	824,092	11.3	813,695	10.2
61 - 90	489,226	6.7	538,767	6.8
91 - 120	347,904	4.8	315,759	4.0
121 and over	<u>907,813</u>	<u>12.4</u>	<u>1,373,550</u>	<u>17.3</u>
	4,237,551	58.0	3,973,774	50.0
In hospital	<u>1,844,119</u>	<u>25.2</u>	<u>2,333,610</u>	<u>29.3</u>
Total hospital	6,081,670	83.2	6,307,384	79.3
Rural Health Clinic	<u>1,223,756</u>	<u>16.8</u>	<u>1,654,981</u>	<u>20.7</u>
	7,305,426	<u>100.0%</u>	7,962,365	<u>100.0%</u>

Less:

Allowance for doubtful accounts - hospital	480,000	610,000
Allowance for doubtful accounts - RHC	354,000	628,416
Allowance for contractual adjustments - hospital	<u>1,407,000</u>	<u>1,304,000</u>
	<u>\$ 5,064,426</u>	<u>\$ 5,419,949</u>

Hospital Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Balance, beginning	\$ 610,000	\$ 700,000
Provision for bad debts	2,519,116	2,488,672
Recoveries of accounts previously written off	<u>437,183</u>	<u>352,517</u>
	3,566,299	3,541,189
Accounts written off	<u>3,086,299</u>	<u>2,931,189</u>
Balance, ending	<u>\$ 480,000</u>	<u>\$ 610,000</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Other Receivables/Inventory/Prepaid Expense
June 30,

	<u>2010</u>	<u>2009</u>
<u>Other Receivables</u>		
Shared services	\$ 105,534	\$ 81,096
Health Partners of Southwest Iowa	48,391	37,573
Lifeline	10,910	14,948
Southwest Iowa Mental Health Center	676,494	697,825
Other	<u>72,278</u>	<u>8,257</u>
	<u>\$ 913,607</u>	<u>\$ 839,699</u>
 <u>Inventory</u>		
General stores	\$ 50,987	\$ 58,746
Pharmacy	387,748	485,448
Radiology	11,706	10,050
Laboratory	78,246	74,926
Rural Health Clinic	15,000	15,000
Dietary	7,054	6,558
Fuel oil	7,024	6,796
Information system	<u>14,703</u>	<u>25,447</u>
	<u>\$ 572,468</u>	<u>\$ 682,971</u>
 <u>Prepaid Expense</u>		
Dues	\$ 17,358	\$ 15,540
Insurance	23,137	91,165
Maintenance agreements and other	<u>409,468</u>	<u>447,664</u>
	<u>\$ 449,963</u>	<u>\$ 554,369</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Patient Service Revenue
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Daily Patient Services:		
Medical and surgical	\$ 1,537,409	\$ 1,964,299
Obstetric	195,268	257,622
Intensive care	780,925	983,706
Nursery	102,080	130,375
Psychiatric services	1,787,440	1,921,304
Distinct Skilled Unit	<u>--</u>	<u>9,860</u>
	4,403,122	5,267,166
Other Nursing Services:		
Operating room	2,015,437	2,197,200
Recovery room	275,591	321,328
Delivery and labor rooms	122,719	201,727
Central services and supply	2,255,401	2,447,756
Intravenous therapy	297,223	360,081
Emergency service	3,239,318	2,435,619
Oncology service	239,022	225,836
Enterstomal therapy	<u>105,932</u>	<u>111,172</u>
	8,550,643	8,300,719
Other Professional Services:		
Laboratory	6,407,152	7,145,378
Blood bank	136,476	123,327
Electrocardiology	185,820	193,660
Cardiac stress testing	116,280	151,395
Ambulatory electrocardiology	73,592	86,504
Radiology	2,052,115	2,020,565
CT scanning	3,296,307	3,481,850
MRI scanning	1,122,263	1,247,922
Nuclear medicine and ultrasound	1,332,188	1,516,106
Pharmacy	5,309,685	5,672,559
Anesthesia	939,357	1,012,593
Respiratory care	1,502,490	1,840,659
Physical therapy	941,350	908,954
Speech therapy	123,532	107,138
Occupational therapy	215,543	181,817
Home Health Care	1,831,696	1,580,730
Hospice	1,148,711	757,734
Cardiac rehabilitation	151,476	132,411
Diabetic center	49,208	43,996
Sleep study	196,240	186,976
Rural Health Clinics	<u>4,843,960</u>	<u>5,257,081</u>
	31,975,441	33,649,355
	<u>\$ 44,929,206</u>	<u>\$ 47,217,240</u>

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Patient Service Revenue - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
SUMMARY		
Inpatient	\$ 5,231,939	\$ 7,695,689
Swing Bed	2,062,163	2,738,019
Distinct Skilled Unit	--	25,420
Psychiatric Services	2,106,327	2,244,580
Outpatient	27,704,410	26,917,987
Home Health Care	1,831,696	1,580,730
Hospice	1,148,711	757,734
Rural Health Clinics	<u>4,843,960</u>	<u>5,257,081</u>
	<u>\$ 44,929,206</u>	<u>\$ 47,217,240</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 44,929,206	\$ 47,217,240
Contractual adjustments - hospital	(12,105,197)	(14,159,990)
Provision for bad debts - hospital	(2,519,116)	(2,488,672)
Provision for contractual adjustments and bad debts - RHC	(493,176)	(438,084)
Uncompensated care	<u>(289,373)</u>	<u>(415,799)</u>
	<u>\$ 29,522,344</u>	<u>\$ 29,714,695</u>
Other Revenue:		
Interest income on operating funds	\$ 8,800	\$ 17,176
Meals sold to employees and guests	183,790	194,297
Meals on wheels	54,106	49,838
Visiting physician clinic rent	228,670	222,009
Operating grants	529,271	458,419
Medical record transcripts	4,521	6,265
VHA participation	28,472	57,931
Biomedical service	30,076	30,717
Nursing education	3,712	2,628
Other	<u>70,630</u>	<u>70,210</u>
	<u>\$ 1,142,048</u>	<u>\$ 1,109,490</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Nursing Administration:		
Salaries and wages	\$ 123,275	\$ 114,169
Supplies and other expense	<u>11,849</u>	<u>5,278</u>
	135,124	119,447
In-Service Training:		
Salaries and wages	59,073	72,825
Supplies and other expense	<u>24,232</u>	<u>28,656</u>
	83,305	101,481
Quality Assurance:		
Salaries and wages	173,644	174,247
Supplies and other expense	<u>7,856</u>	<u>14,059</u>
	181,500	188,306
Nursing Supervision:		
Salaries and wages	260,497	257,680
Supplies and other expense	<u>410</u>	<u>449</u>
	260,907	258,129
Medical and Surgical:		
Salaries and wages	1,034,335	1,141,658
Supplies and other expense	<u>60,701</u>	<u>103,124</u>
	1,095,036	1,244,782
Psychiatric Services:		
Salaries and wages	916,576	957,930
Professional fees	297,084	213,585
Supplies and other expense	<u>17,746</u>	<u>22,799</u>
	1,231,406	1,194,314
Intensive Care:		
Salaries and wages	475,672	441,117
Supplies and other expense	<u>9,594</u>	<u>55,376</u>
	485,266	496,493
Obstetric:		
Salaries and wages	290,688	297,818
Supplies and other expense	<u>11,334</u>	<u>45,217</u>
	302,022	343,035
Distinct Skilled Unit:		
Salaries and wages	--	11,570
Supplies and other expense	<u>--</u>	<u>100</u>
	--	11,670

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Nursery:		
Salaries and wages	\$ 131,911	\$ 137,038
Operating Room:		
Salaries and wages	467,301	501,322
Professional fees	13,968	3,581
Supplies and other expense	<u>119,080</u>	<u>137,526</u>
	600,349	642,429
Recovery Room:		
Salaries and wages	34,956	37,162
Delivery and Labor Rooms:		
Salaries and wages	57,929	60,562
Central Services and Supply:		
Salaries and wages	61,116	51,146
Supplies sold to patients	423,328	425,074
Supplies and other expense	<u>3,476</u>	<u>3,661</u>
	487,920	479,881
Intravenous Therapy:		
Solutions	9,203	15,110
Supplies and other expense	<u>72,128</u>	<u>125,809</u>
	81,331	140,919
Emergency Room:		
Salaries and wages	302,280	286,786
Supplies and other expense	<u>28,518</u>	<u>26,871</u>
	330,798	313,657
Outpatient Clinics:		
Salaries and wages	394,281	400,822
Supplies and other expense	<u>15,106</u>	<u>17,980</u>
	<u>409,387</u>	<u>418,802</u>
	<u>\$ 5,909,147</u>	<u>\$ 6,188,107</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Emergency Room Physicians:		
Salaries and wages	\$ 248,938	\$ 110,097
Professional fees	<u>321,600</u>	<u>322,910</u>
	570,538	433,007
Laboratory:		
Salaries and wages	748,222	748,106
Professional fees	325,552	378,804
Supplies and other expense	266,429	275,962
Cost of chemistry reagents	<u>329,122</u>	<u>320,379</u>
	1,669,325	1,723,251
Blood Bank:		
Cost of blood	164,934	155,150
Electrocardiology:		
Salaries and wages	8,460	8,652
Supplies and other expense	<u>59</u>	<u>3,426</u>
	8,519	12,078
Cardiac Stress Testing:		
Salaries and wages	5,411	8,194
Professional fees	756	1,036
Supplies and other expense	<u>3,171</u>	<u>2,455</u>
	9,338	11,685
Ambulatory Electrocardiology:		
Salaries and wages	6,547	9,409
Purchased services	5,390	--
Supplies and other expense	<u>232</u>	<u>418</u>
	12,169	9,827
Radiology:		
Salaries and wages	312,847	298,418
Professional fees	4,458	3,984
Cost of film	640	4,805
Supplies and other expense	<u>152,294</u>	<u>112,559</u>
	470,239	419,766
CT and MRI Scanning:		
Salaries and wages	103,013	102,854
Purchased services	140,463	162,525
Supplies and other expense	<u>126,430</u>	<u>146,956</u>
	369,906	412,335

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Nuclear Medicine and Ultrasound:		
Salaries and wages	\$ 83,925	\$ 81,605
Purchased services	118,463	137,099
Supplies and other expense	<u>18,990</u>	<u>21,587</u>
	221,378	240,291
Pharmacy:		
Salaries and wages	548,326	585,175
Drugs	1,477,035	1,557,470
Supplies and other expense	<u>63,368</u>	<u>61,557</u>
	2,088,729	2,204,202
Anesthesia:		
Salaries and wages	438,905	410,302
Professional fees	22,832	59,199
Supplies and other expense	<u>12,715</u>	<u>12,117</u>
	474,452	481,618
Respiratory Care:		
Salaries and wages	197,901	197,192
Oxygen	16,303	16,091
Supplies and other expense	<u>9,772</u>	<u>18,734</u>
	223,976	232,017
Physical Therapy:		
Salaries and wages	305,434	302,930
Supplies and other expense	<u>8,732</u>	<u>11,698</u>
	314,166	314,628
Occupational Therapy:		
Salaries and wages	96,391	80,592
Supplies and other expense	<u>6,791</u>	<u>10,799</u>
	103,182	91,391
Speech Therapy:		
Salaries and wages	53,233	50,419
Professional fees	113	250
Supplies and other expense	<u>2,080</u>	<u>2,299</u>
	55,426	52,968

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Home Health Care:		
Salaries and wages	\$ 1,534,873	\$ 1,604,853
Professional fees	--	113
Supplies and other expense	<u>301,864</u>	<u>362,936</u>
	1,836,737	1,967,902
Hospice:		
Salaries and wages	415,556	288,126
Professional fees	400	573
Supplies and other expense	<u>413,437</u>	<u>251,686</u>
	829,393	540,385
Cardiac Rehabilitation:		
Salaries and wages	146,372	161,410
Supplies and other expense	<u>19,438</u>	<u>14,905</u>
	165,810	176,315
Diabetic Center:		
Salaries and wages	96,595	94,280
Supplies and other expense	<u>2,606</u>	<u>4,059</u>
	99,201	98,339
Business Health:		
Supplies and other expense	11	5,509
Medical Records:		
Salaries and wages	311,335	323,701
Supplies and other expense	47,029	35,056
Microfilming services purchased	<u>7,280</u>	<u>19,186</u>
	365,644	377,943
Medical Education - Community Orientation Program:		
Supplies and other expense	4,070	3,787

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Utilization Review:		
Salaries and wages	\$ 190,631	\$ 182,161
Supplies and other expense	<u>6,598</u>	<u>2,926</u>
	197,229	185,087
Sleep Studies:		
Purchased services	101,225	92,528
Supplies and other expense	<u>2,158</u>	<u>107</u>
	103,383	92,635
Rural Health Clinic - Atlantic:		
Salaries and wages	1,418,585	1,460,721
Professional fees	1,701,979	1,649,625
Purchased services	53,977	46,255
Facility costs	42,411	43,626
Supplies and other expense	<u>165,336</u>	<u>173,082</u>
	3,382,288	3,373,309
Rural Health Clinic - Anita:		
Salaries and wages	63,391	43,866
Professional fees	35,138	68,789
Facility costs	19,435	19,735
Supplies and other expense	<u>8,644</u>	<u>10,014</u>
	126,608	142,404
Rural Health Clinic - Massena:		
Salaries and wages	48,248	38,842
Professional fees	31,550	59,249
Facility costs	5,596	7,237
Supplies and other expense	<u>10,378</u>	<u>13,792</u>
	95,772	119,120
Rural Health Clinic - Griswold:		
Salaries and wages	58,420	50,394
Professional fees	54,633	72,022
Facility costs	20,928	20,919
Supplies and other expense	<u>10,984</u>	<u>10,381</u>
	<u>144,965</u>	<u>153,716</u>
	<u>\$ 14,107,388</u>	<u>\$ 14,030,665</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
General Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Dietary:		
Salaries and wages	\$ 427,906	\$ 447,024
Food	199,035	242,378
Supplies and other expense	<u>42,657</u>	<u>58,490</u>
	669,598	747,892
Operation of Plant:		
Salaries and wages	332,564	318,036
Electricity	120,363	118,902
Natural gas and fuel oil	108,830	132,369
Water	19,079	20,098
Supplies and other expense	<u>228,810</u>	<u>212,428</u>
	809,646	801,833
Clinical Equipment:		
Contracted services	94,411	93,826
Supplies and other expense	<u>4,774</u>	<u>4,583</u>
	99,185	98,409
Housekeeping:		
Salaries and wages	319,668	319,313
Contracted management services	213,644	227,387
Supplies and other expense	<u>58,157</u>	<u>64,012</u>
	591,469	610,712
Laundry and Linen:		
Salaries and wages	32,896	36,725
Contracted management services	21,165	22,244
Supplies and other expense	58,493	72,761
Linens	<u>1,937</u>	<u>2,103</u>
	<u>114,491</u>	<u>133,833</u>
	<u>\$ 2,284,389</u>	<u>\$ 2,392,679</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Administrative Services:		
Salaries and wages	\$ 274,018	\$ 270,225
Dues and subscriptions	38,462	39,032
Legal publications and advertising	11,721	8,069
Consulting fees	135,644	121,885
Recruiting	291,835	95,019
Supplies and other expense	<u>40,182</u>	<u>53,184</u>
	791,862	587,414
Fiscal Services:		
Salaries and wages	326,134	333,292
Telephone	34,593	38,830
Freight and postage	15,172	18,713
Professional fees	50,654	35,210
Supplies and other expense	<u>126,607</u>	<u>108,993</u>
	553,160	535,038
Admissions:		
Salaries and wages	277,760	277,053
Supplies and other expense	<u>13,003</u>	<u>14,699</u>
	290,763	291,752
Credit and Collections:		
Salaries and wages	179,842	177,670
Supplies and other expense	91,612	96,568
Collection expense	<u>144,928</u>	<u>94,175</u>
	416,382	368,413
Information Systems:		
Salaries and wages	548,390	521,033
Professional fees	38,405	60,218
Supplies and other expense	<u>302,773</u>	<u>253,241</u>
	889,568	834,492
Human Resources:		
Salaries and wages	193,970	197,196
Supplies and other expense	<u>69,240</u>	<u>133,852</u>
	263,210	331,048
Public Relations:		
Salaries and wages	50,250	50,444
Supplies and other expense	<u>66,519</u>	<u>79,961</u>
	116,769	130,405
Purchasing:		
Salaries and wages	109,687	110,442
Supplies and other expense	<u>20,417</u>	<u>28,418</u>
	130,104	138,860

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Employee Welfare:		
Social Security tax	\$ 1,090,942	\$ 1,111,665
Iowa Public Employees' Retirement System	948,122	1,014,995
Group health insurance	1,708,587	1,450,103
Workers' compensation insurance	294,622	323,548
Deferred compensation	209,054	211,275
Other	<u>10,366</u>	<u>14,245</u>
	4,261,693	4,125,831
Insurance:		
Liability and property insurance	175,810	178,643
Wellness:		
Salaries and wages	29,041	25,170
Supplies and other expense	<u>21,632</u>	<u>19,634</u>
	50,673	44,804
Compliance:		
Supplies and other expense	4,755	4,725
Customer Service:		
Salaries and wages	994	235
Supplies and other expense	<u>32,382</u>	<u>27,277</u>
	33,376	27,512
Foundation:		
Salaries and wages	<u>30,379</u>	<u>29,686</u>
	<u>\$ 8,008,504</u>	<u>\$ 7,628,623</u>

Summary of Expenses

Salaries and wages	\$ 15,358,592	\$ 15,299,695
Employee benefits	4,261,693	4,125,831
Professional fees	3,034,766	3,051,033
Supplies and other expense	<u>7,654,377</u>	<u>7,763,515</u>
	<u>\$ 30,309,428</u>	<u>\$ 30,240,074</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Acute Care:					
Admissions	670	1,023	1,059	936	1,041
Discharges	673	1,015	1,058	944	1,037
Patient Days	1,958	2,716	3,168	3,061	3,224
Average Length of Stay	2.91	2.68	2.99	3.24	3.11
Average Occupied Beds	5.4	7.4	8.7	8.4	8.8
Swing Bed:					
Admissions	247	339	340	284	281
Discharges	244	343	341	282	284
SNF Days	1,639	2,276	2,165	2,045	1,754
Average Occupied Beds	4.5	6.2	5.9	5.6	4.8
Skilled Nursing Facility:					
Admissions	--	9	4	5	13
Discharges	--	9	5	4	13
Patient Days	--	42	43	20	79
Combined Average Occupied Beds (Acute and Skilled)	9.9	13.8	14.7	14.0	13.9
Psychiatric Unit:					
Admissions	258	209	226	211	219
Discharges	255	214	227	207	223
Patient Days	1,017	1,187	1,118	1,014	1,406
Average Occupied Beds	2.8	3.3	3.1	2.8	3.9
Total Average Occupied Beds	12.7	17.0	17.7	16.8	17.7
Nursery Days	249	329	325	291	311
Outpatient Occasions of Service	63,719	63,797	61,527	55,640	54,571
Physician Clinic Visits	39,384	43,584	32,354	--	--

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 3,636,087	\$ 3,322,317
Patient receivables, net	5,064,426	5,419,949
Other receivables	913,607	839,699
Inventory	572,468	682,971
Prepaid expense	449,963	554,369
Estimated third-party payor settlements	--	--
Succeeding year property tax receivable	1,851,000	2,086,000
Internally designated assets	<u>493,092</u>	<u>562,833</u>
Total current assets	12,980,643	13,468,138
Other Assets:		
Designated and restricted assets, net	5,992,362	5,174,364
Capital assets, net	9,313,124	9,189,413
Other noncurrent assets	<u>1,085,656</u>	<u>1,057,152</u>
Total other assets	<u>16,391,142</u>	<u>15,420,929</u>
	<u>\$ 29,371,785</u>	<u>\$ 28,889,067</u>
Current Liabilities:		
Current maturities	\$ 460,393	\$ 537,869
Accounts payable	650,584	717,953
Accrued expenses	2,131,356	2,199,624
Estimated third-party payor settlements	660,000	583,000
Deferred revenue for succeeding year property tax receivable	<u>1,851,000</u>	<u>2,086,000</u>
Total current liabilities	5,753,333	6,124,446
Capital Lease Obligations, Net	529,706	298,497
Bonds Payable, Net	--	153,135
Net Assets	<u>23,088,746</u>	<u>22,312,989</u>
	<u>\$ 29,371,785</u>	<u>\$ 28,889,067</u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,693,315	\$ 1,179,749	\$ 576,870
7,412,879	5,129,144	5,651,770
657,036	374,128	342,678
702,678	617,445	584,569
366,436	343,526	345,593
--	265,000	--
1,593,000	1,711,000	1,493,000
<u>615,523</u>	<u>596,172</u>	<u>772,484</u>
13,040,867	10,216,164	9,766,964
3,754,040	3,517,263	2,077,585
9,876,362	10,573,153	11,083,160
<u>924,536</u>	<u>3,484,618</u>	<u>3,533,776</u>
14,554,938	17,575,034	16,694,521
<u>\$ 27,595,805</u>	<u>\$ 27,791,198</u>	<u>\$ 26,461,485</u>
\$ 528,502	\$ 504,148	\$ 569,681
742,663	738,704	787,030
1,952,436	1,548,302	1,412,148
768,000	--	333,000
<u>1,593,000</u>	<u>1,711,000</u>	<u>1,493,000</u>
5,584,601	4,502,154	4,594,859
509,362	709,577	419,121
461,166	772,273	1,069,066
<u>21,040,676</u>	<u>21,807,194</u>	<u>20,378,439</u>
<u>\$ 27,595,805</u>	<u>\$ 27,791,198</u>	<u>\$ 26,461,485</u>

CASS COUNTY MEMORIAL HOSPITAL
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Patient Service Revenue	\$ 44,929,206	\$ 47,217,240
Adjustments to Patient Service Revenue	<u>(15,406,862)</u>	<u>(17,502,545)</u>
Net Patient Service Revenue	29,522,344	29,714,695
Other Revenue	<u>1,142,048</u>	<u>1,109,490</u>
Total Revenue	30,664,392	30,824,185
Expenses	<u>31,837,740</u>	<u>31,698,666</u>
Operating Loss	(1,173,348)	(874,481)
Non-Operating Revenue, Net	1,864,191	2,082,108
Capital Grants and Contributions	<u>84,914</u>	<u>64,686</u>
Excess of Revenues Over Expenses	<u>\$ 775,757</u>	<u>\$ 1,272,313</u>

See Independent Auditor's Report.

<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 44,042,242	\$ 36,357,236	\$ 35,392,009
<u>(16,348,067)</u>	<u>(13,045,084)</u>	<u>(13,916,819)</u>
27,694,175	23,312,152	21,475,190
<u>970,419</u>	<u>429,657</u>	<u>379,229</u>
28,664,594	23,741,809	21,854,419
<u>28,826,601</u>	<u>24,075,267</u>	<u>22,795,186</u>
(162,007)	(333,458)	(940,767)
1,896,297	1,694,884	1,687,530
<u>67,179</u>	<u>67,329</u>	<u>128,497</u>
<u>\$ 1,801,469</u>	<u>\$ 1,428,755</u>	<u>\$ 875,260</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Cass County Memorial Hospital
Atlantic, Iowa

We have audited the financial statements of Cass County Memorial Hospital as of and for the year ended June 30, 2010, and have issued our report thereon dated October 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cass County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Cass County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Cass County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 10-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cass County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Cass County Memorial Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Cass County Memorial Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald, Ben, Kyhn & W.P.C.

Atlantic, Iowa
October 12, 2010

CASS COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2010

PART I - SIGNIFICANT DEFICIENCIES

10-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This deficiency is common among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

10-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2010 did not exceed amounts budgeted.

10-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Employee Recreation Club	Employee holiday party	\$ 750

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

CASS COUNTY MEMORIAL HOSPITAL
Schedule of Findings - Continued
Year ended June 30, 2010

PART II - REQUIRED STATUTORY REPORTING - Continued

10-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

10-II-D Business Transactions: During our audit, we noted no business transactions with Hospital employees or officials.

10-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

10-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *